FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Sacramento City Unified School District

Presentation to the Governing Board Regarding Projected Cash Flow

May 7, 2026

Current Engagements

- The Fiscal Crisis and Management Assistance Team (FCMAT) is engaged with the district as follows:
  - At the district's request, providing technical assistance.
  - At the county superintendent of schools' request, conducting a cash flow analysis.
- Tonight's presentation is about the projected general fund cash flow for the 2026-27 fiscal year.
  - The cash flow analysis was provided to the district at no cost.

Signs of Fiscal Distress

Deficit spending is defined as expenditures that exceed revenues.

Over time, deficit spending erodes fund balance.

Minimum reserve balances may be jeopardized, eliminating the safety net needed to respond to fiscal distress.

Cash and fund balances are not the same. Cash balances reflect actual transactions and available liquidity.

When deficit spending is severe and persistent, it can lead to cash shortfalls.

Insolvency is defined as having insufficient cash and exhausting all borrowing opportunities to meet payroll obligations.

District Fiscal Condition

Counting 2018-19 through this fiscal year, the district had three qualified interim certifications and six negative certifications.

There were four positive interim certifications during the pandemic years with large infusions of resources.

On October 10, 2025, the county superintendent designated the district as a lack of going concern.

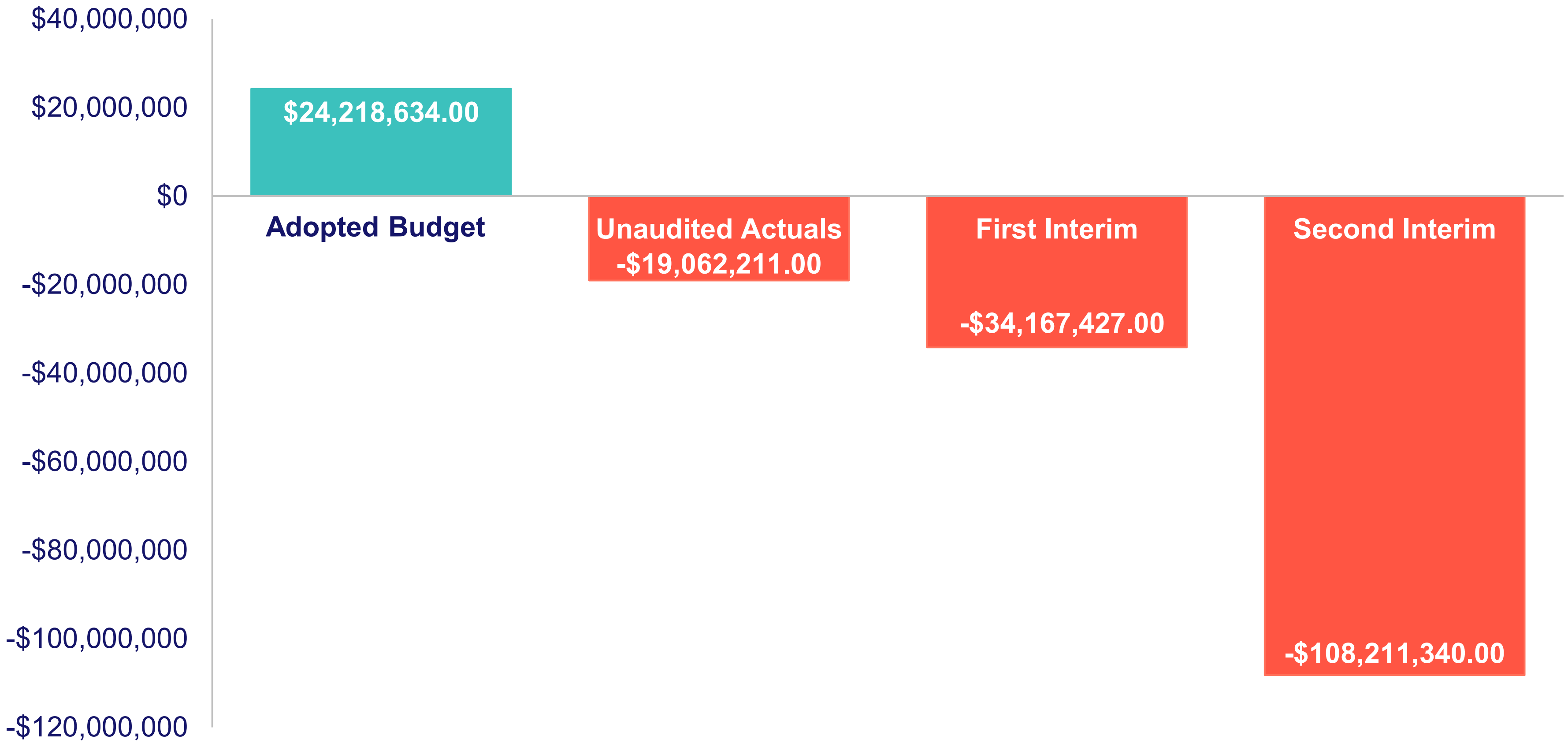
The 2024-25 audit report raised substantial doubt about the district's ability to continue as a going concern.

Projected current year deficit spending escalated from $94.7 million to $217.7 million.

The projected ending fund balance as of June 30, 2026 is **negative** $60.6 million.

Deficit Spending Erodes Fund Balance

June 30, 2026 Estimated Ending Unrestricted Fund Balance at Reporting Periods



Sources: District's 2024-25 unaudited actuals and 2025-26 adopted budget, first interim, and second interim financial reports.

MYP Ending Balance and Reserve Concerns

Unrestricted General Fund, 2025-26 through 2027-28

Fund Balance and Reserve Status	2025-26	2026-27	2027-28
Unrestricted Ending Fund Balance	-$108.2M	-$251.1M	-$394.8M
Available Reserves	-$108.2M	-$251.1M	-$394.8M
Available Reserves (% of Expenditures)	-11.33%	-28.77%	-44.00%
Statutory Minimum Reserve	$19.1M	$17.5M	$17.9M
Statutory Minimum Reserve (%)	2%	2%	2%
Meets Statutory Minimum Reserve	Not Met	Not Met	Not Met
Reserve Shortfall	-$127.3M	-$268.6M	-$412.7M

Source: District’s 2025-26 second interim multiyear financial projection (MYP).

2026-27 Budget Assumptions

- Fiscal stabilization plan elements as of March 5, 2026 are incorporated into the second interim report.
  - Savings from staffing reductions are included; however, no allowance is made for separation costs.
- An allowance is included for the tentative agreement with classified employees.
- The Governor's January budget proposal is used for 2026-27 revenue in the second interim MYPs.
  - No assumptions are included for May Revise improvement.
- Costs related to the receivership process are not included.

Budget vs. Cash

Budget

- A budget is a plan that represents how much the district anticipates earning (revenues/sources), spending (expenditures/uses), and the projected year-end balance (positive or negative reserves).
- The budget is accounted for as unrestricted and restricted resources.

Cash

- Cash is the result of what actually happens.
- Cash flow represents the change in available cash balance from the beginning to the end of a period.
- Cash is comingled without regard to restrictions.
- Cash is king! Cash shows no mercy!

Process to Project Cash

- FCMAT's process for projecting next year's cash flow is as follows:
  - **Establish the base year:**
    - Current-year revenue and expenditures from the second interim report (March), and actual cash activity through March 31, 2026.
    - All fund cash balances as of April 15, 2026.
  - **Develop next year's projections:**
    - Second interim MYPs for next year's revenues and expenditures.
    - Historical cash flow timing patterns to estimate monthly cash activity (with some adjustments).

2026-27 Cash Assumptions

- Actual cash transactions through March 2026, projections for the remainder of 2025-26 and all of 2026-27.
- Assumes approval of the June 2026 apportionment deferral exemption.
    - Estimated at $30.8 million, which would otherwise result in a negative June cash balance.
- FCMAT has not performed a cash flow analysis for other funds and used April 15, 2026 cash balances.
    - Approximately $36.6 million is estimated to be available for short-term borrowing.

2026-27 Cash Assumptions (cont.)

- Practices for advancing property tax apportionments were confirmed with the county treasurer.
  - It was confirmed that 85% of estimated 2026-27 property tax apportionments would be posted in July 2026 (approximately $111.1 million).

Internal Borrowing Capacity

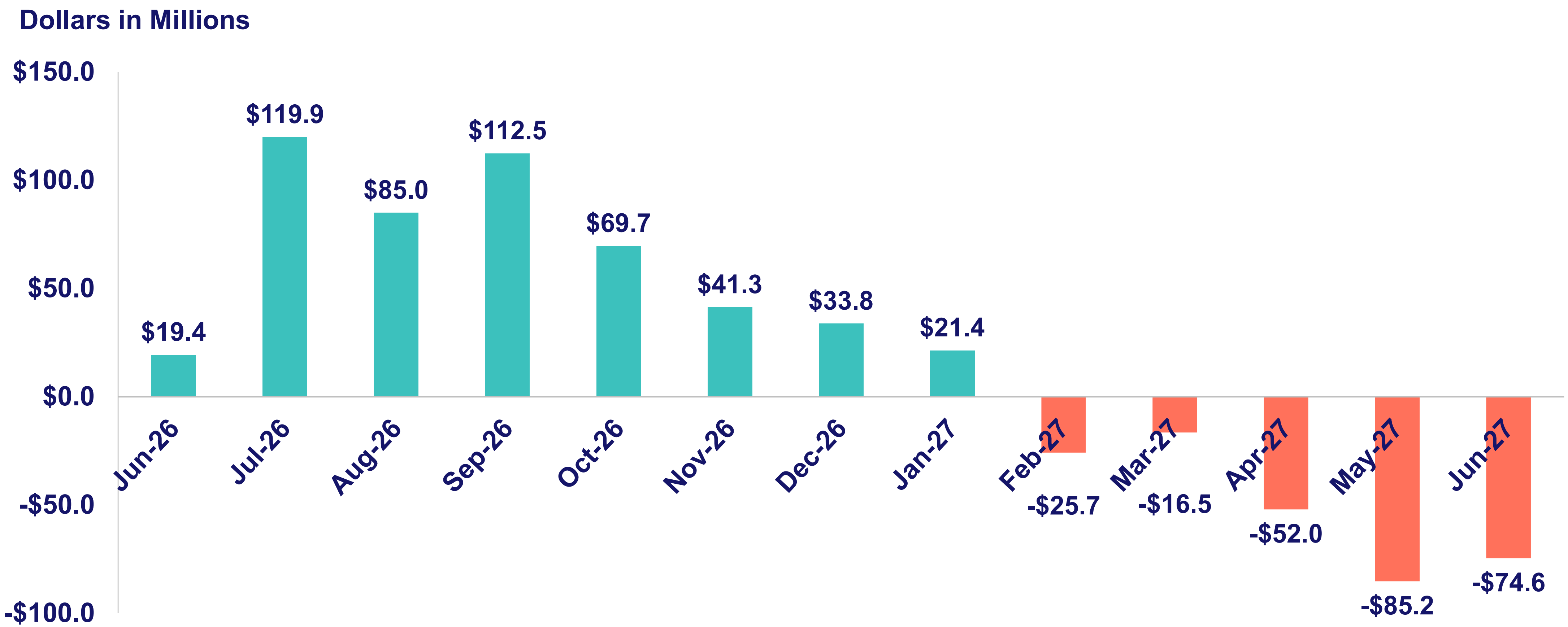
Cash Balances as of April 15, 2026	
Total cash in county treasury (all funds)	$228,858,586
Less: General fund* and funds with negative or insufficient balances	57,206,033
Less: Funds not legally available for borrowing	110,107,254
Less: Self-insurance fund transfer into the general fund (per FSP**)	9,000,000
Less: Charter school fund transfer into the general fund (per annual budget)	3,755,880
Total funds potentially available	**$48,789,419**
Applied borrowing limit	75%
Maximum estimated internal borrowing capacity	**$36,592,064**

*General fund balances include the district's payroll clearing account – Fund 76.
**FSP = Fiscal solvency plan.

2026-27 Projected Cash Flow Report

Source: FCMAT general fund cash flow projection **without** interfund borrowing or advances; values shown are month end.

2026-27 Projected Cash Flow Report (cont.)



Source: FCMAT general fund cash flow projection **with** interfund borrowing and advances; values shown are month end.

Projection is Likely Best-Case Scenario

- FCMAT's projection is the best-case scenario given the following:
  - District office reorganization cost projections exceed second interim expenditure projections by $30 million to $40 million, moving the month the sustained cash deficit begins up to January 2027.
    - At $30 million, FCMAT projects a small positive ending cash balance in January; however, mid-month balances are likely negative.
    - At $40 million, FCMAT projects a small negative ending cash balance in January, and mid-month balances will be negative.
  - No allowance is included for separation costs associated with staffing reductions.

Next Steps

- Emergency advance apportionments are available approximately 60 days after legislation is enacted.
- **Scenario 1: Summer Trailer Bill**
    - Current legislative session ends August 30, 2026 (last opportunity for trailer bill action).
    - Funds available in Fall 2026.
    - Cash needs met through June 30, 2027.
- **Scenario 2: December Urgency Legislation**
    - Earliest possible legislative action in late January or early February 2027.
    - Funds available in late March or early April 2027.

Next Steps (cont.)

- Only trailer bill action during the current legislative session can deliver funding in time to address the district’s projected February 2027 cash shortfall.
- Urgency legislation in the next legislative session would occur too late to prevent insolvency.
  - Approximately $60 million in payroll for roughly 5,000 employees would be at risk of not being paid.

Next Steps (cont.)

Next steps will proceed in parallel rather than sequentially.

- The district board needs to work through the prerequisite steps and decide whether to request an emergency advance apportionment.
- Legislative bill language will be crafted and introduced with the goal of adoption through urgency legislation or a trailer bill by June 30.
- An interim administrator will be identified and appointed by July 1; a permanent administrator will be identified and vetted by August 31.
- The initial cash apportionment from the state will occur, as needed, in fall 2026 or winter 2027, with the final apportionment occurring no later than 12-18 months thereafter.

Next Steps (cont.)

- All education partners need to acknowledge that recent news about the district invokes a range of emotions among parents, students, employees and the community – most notably, grief. We must all lead with this in mind.
- Transparent, timely, and accurate communication is critical.
- Irrespective of the board's decision, FCMAT will continue to support the district with cash flow updates and other technical assistance.

Thank you.

Appendix

The Consequences of Cash Insolvency

- The district's governing board may request and receive authorization for an emergency advance apportionment from the state; however:
  - The district will lose local governance.
  - Expenditure reductions will still be necessary and will need to be more substantial due to costs associated with the advance apportionment.
  - This is not a bailout – it is a cash advance to help pay the district's immediate obligations and must be repaid.
- In the context of insolvency, the district's fiscal condition is more likely to deteriorate in the short term than improve.
- **Time is of the essence.**

Receivership Types

- Statute provides two sets of conditions related to emergency advance apportionments.
  - The distinguishing characteristic of the two is the amount of the apportionment requested.
    - **Type 1 –** Equal to or less than 200% of the district's required reserve for economic uncertainties.
    - **Type 2 –** Greater than 200% of the district's required reserve for economic uncertainties.
- Based on all available information known today, the district will require a Type 2 apportionment.

Receivership Prerequisites

- The formal process of receivership begins when the **district requests** an emergency advance apportionment from the state.
- Prerequisites for an emergency apportionment include:*
  - A report by auditor on the district's financial condition and budgetary controls.
  - A management review conducted by a qualified management consultant.
  - A fiscal plan adopted by the district board.
- Review and approval by the State Superintendent of Public Instruction (SPI) of required reports, the fiscal recovery plan, and the repayment plan.**
- The district board must discuss the need for the emergency apportionment at a public meeting and receive testimony.***

*EC 41320(a); **EC 41320(b); ***EC 41326(a)

Governance Changes

As a condition of accepting an emergency advance apportionment from the state:

- The county superintendent shall assume all the legal rights, duties and powers of the district board.
- With concurrence from the SPI and the president of the state board of education (SBE), the county superintendent shall appoint an administrator from a pool of candidates identified and vetted by FCMAT.
- The administrator serves under the direction of the county superintendent.
- The district board shall serve as an advisory board reporting to the administrator and shall have no legal rights, duties or powers.

Appointed Administrator

- Within 30 days of assuming authority, the administrator shall discuss options for resolving the district's fiscal problems with a variety of partners.
- Additionally, the administrator may:
  - Implement substantial changes to the district's fiscal policies and practices, including filing for protection under federal bankruptcy law.
  - Revise educational programs to align with available resources and student performance standards.
  - Encourage all partners to accept a fair share of the burden.
  - Consult with a variety of partners, including FCMAT.
  - Adjust and modify policies as needed to effectively implement recovery plans.

Regaining Local Control

- The return of local control occurs when the administrator's work is complete, and a transition is made to a trustee.
- The return is contingent on a series of determinations and approvals and may occur no sooner than one* year after acceptance of the loan.
    - Recovery plans are approved, and FCMAT completes at least two* comprehensive reviews.
    - The administrator certifies that all collective bargaining agreements have been negotiated and ratified and are consistent with the terms of the recovery plans.
    - The district has completed all reports required by the administrator and county superintendent.

*One year and two reports are in conflict given that the reports are annual.

Regaining Local Control (cont.)

- The administrator, county superintendent, SPI, and SBE president determine that future compliance with the recovery plans is probable.
- The county superintendent approves the return of local control, with concurrence from the SPI.

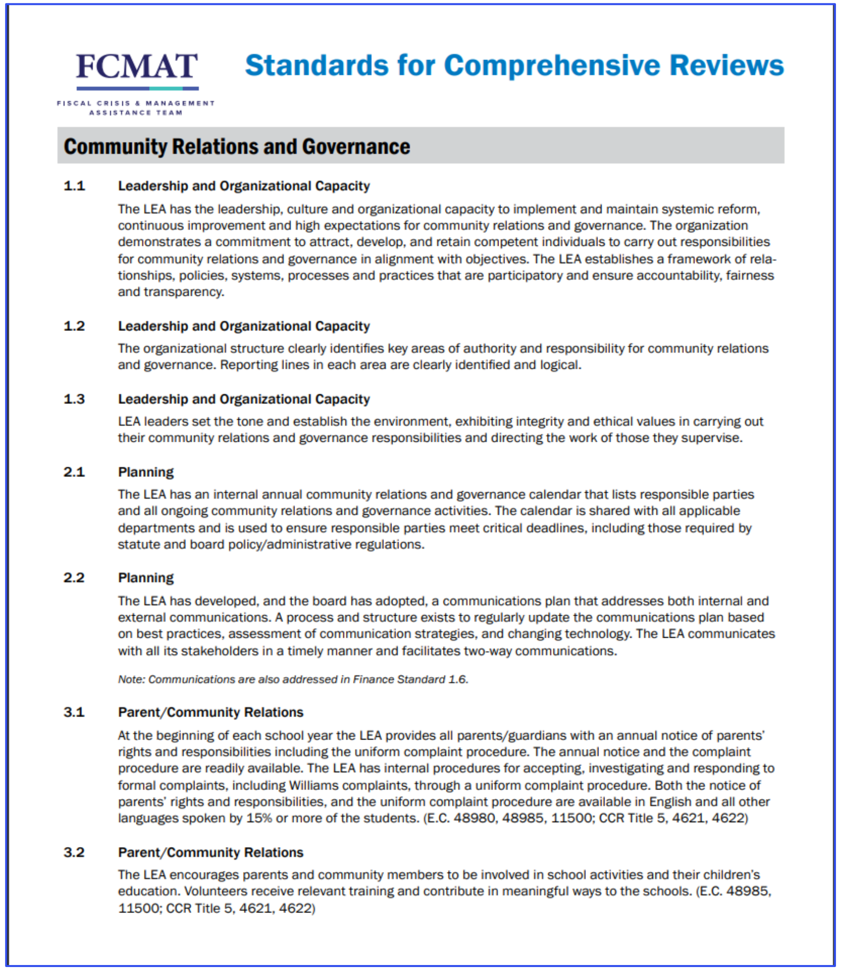
- The return of local control is based on both objective and subjective considerations.
  - The probability of future compliance with the recovery plans is best determined by the district's progress in implementing the recovery plans, as evidenced by the annual comprehensive assessment conducted by FCMAT – the comprehensive review.

Comprehensive Review

- Within six months of an emergency apportionment, and annually thereafter, FCMAT must conduct a comprehensive assessment across the five operational areas over which governance is exercised:
  - Financial management.
  - Pupil achievement.
  - Personnel management.
  - Facilities management.
  - Governance and community relations.

Comprehensive Review (cont.)

- The SBE adopts a list of professional and legal standards that all school districts are encouraged to use as a guide to maintain sound educational programs and fiscal and management practices.
- These standards serve as the minimum basis for evaluating the improvement of a district in receivership.
- The standards were last updated in 2019 and total approximately 150.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Standards for Comprehensive Reviews

Community Relations and Governance

1.1 **Leadership and Organizational Capacity**

The LEA has the leadership, culture and organizational capacity to implement and maintain systemic reform, continuous improvement and high expectations for community relations and governance. The organization demonstrates a commitment to attract, develop, and retain competent individuals to carry out responsibilities for community relations and governance in alignment with objectives. The LEA establishes a framework of relationships, policies, systems, processes and practices that are participatory and ensure accountability, fairness and transparency.

1.2 **Leadership and Organizational Capacity**

The organizational structure clearly identifies key areas of authority and responsibility for community relations and governance. Reporting lines in each area are clearly identified and logical.

1.3 **Leadership and Organizational Capacity**

LEA leaders set the tone and establish the environment, exhibiting integrity and ethical values in carrying out their community relations and governance responsibilities and directing the work of those they supervise.

2.1 **Planning**

The LEA has an internal annual community relations and governance calendar that lists responsible parties and all ongoing community relations and governance activities. The calendar is shared with all applicable departments and is used to ensure responsible parties meet critical deadlines, including those required by statute and board policy/administrative regulations.

2.2 **Planning**

The LEA has developed, and the board has adopted, a communications plan that addresses both internal and external communications. A process and structure exists to regularly update the communications plan based on best practices, assessment of communication strategies, and changing technology. The LEA communicates with all its stakeholders in a timely manner and facilitates two-way communications.

Note: Communications are also addressed in Finance Standard 1.6.

3.1 **Parent/Community Relations**

At the beginning of each school year the LEA provides all parents/guardians with an annual notice of parents' rights and responsibilities including the uniform complaint procedure. The annual notice and the complaint procedure are readily available. The LEA has internal procedures for accepting, investigating and responding to formal complaints, including Williams complaints, through a uniform complaint procedure. Both the notice of parents' rights and responsibilities, and the uniform complaint procedure are available in English and all other languages spoken by 15% or more of the students. (E.C. 48980, 48985, 11500; CCR Title 5, 4621, 4622)

3.2 **Parent/Community Relations**

The LEA encourages parents and community members to be involved in school activities and their children's education. Volunteers receive relevant training and contribute in meaningful ways to the schools. (E.C. 48985, 11500; CCR Title 5, 4621, 4622)

Phases of Recovery Under Receivership

Apportionment Greater Than 200% of Recommended Reserve

District experiences fiscal distress leading to projected cash insolvency.

Local governance authority is reestablished, and a trustee is assigned (EC 41326(g)).

The trustee monitors and reviews district operations and may stay or rescind governing board actions (EC 41320.1(c)).

The district makes its final apportionment repayment.

District applies for and accepts an emergency apportionment, including assignment of an administrator (EC 41326).

Progress is documented through annual comprehensive reviews, which determine readiness to transition to the next phase (EC 41327.1).

Before apportionment repayment, the district must conduct an audit of its fiscal systems (generally interpreted as internal control systems) (EC 41320.1(a)(4)).

Based on the internal control audit, the trustee may be retained until identified deficiencies are corrected.

EC = Education Code

This graphic is for illustration purposes only.

Summary of Receivership Process

A summary of the work around fiscal crisis and the state's receivership process for school districts is available on the FCMAT website:

- *Fiscal Crisis in School Districts* (report).
- *Fiscal Crisis in School Districts* (presentation).